4.008

U.S. Small Business Administration
Management Assistance
Support Services Section

Management Aids
Number 4.008

SBA

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Tips on Getting More for Your Marketing Dollar

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MARKETING

SBA 1.32:

First Printed December 1978
Reprinted April 1981

Summary

Marketing costs can consume anywhere from 10 to 50 percent of your sales dollar. Every penny of your marketing costs may be justified. Many small business owner-managers, however, simply don't know what all of these costs are, let alone whether or not they're warranted.

This Aid **suggests reasons for careful assignment of marketing outlays and suggests ways of using marketing accounting data to analyze marketing efforts and to make marketing decisions.**

If you are to get the most for your marketing dollar, you must establish objectives for each of your marketing programs and carefully measure the results of those programs. The difficulty of setting such objectives and measuring the achievement of them accounts for why so few marketers do. But without objectives and measurements, you cannot hope to improve the effectiveness of your marketing programs and increase the return on your marketing outlays.

Knowing what is really happening to your marketing expenditures takes you a long way down the road to improving the effectiveness of your marketing program. But you've got to dig to learn what's really happening. Let's look at two examples of marketers who did and see what they found.

The Jones Company's Marketing Communications

The Jones Company† manufactured and marketed a line of consumer hardware products through hardware, home improvement, and building supply outlets. Jones's total annual sales volume was $4.2 million. The company traditionally spent an amount equivalent to 10 percent of sales to advertise its products in consumer publications. Although Jones's management had never analyzed the effectiveness of the advertising expenditure, they considered it a necessary part of their marketing program.

Jones's new marketing manager felt that the company could probably get more for its advertising dollar. Upon anylyzing the costs and results of the program, the manager made a number of interesting discoveries.

The new marketing manager found that, although the media portion of the advertising expenditure was divided about evenly among three publications, inquiries generated by one of them outnumbered inquiries generated by each of the others by almost two to one. Analysis of the consumer profile of the readers of each of the three publications revealed that the demographic profile of the reader of the publication which produced the most inquiries was much more closely aligned with Jones's typical customer profile than were those of the other two publications.

As a result of these findings, the marketing manager increased the advertising in the most effective publication and stopped using the other two. In the process, media expenses were cut by nearly 50 percent, while the number of inquiries generated actually increased.

A second major finding made by the new marketing manager was that all the company's advertising featured the entire product line and stressed primarily the quality features of the company's products, rather than the benefits users might expect from them. Based on these discoveries, the manager began advertising only selected high volume items.

New ads stopped stressing quality—at best an illusive attribute—and began to emphasize user benefits instead. By carefully watching sales over a two year priod, the marketing manager saw that the products advertised showed substantial sales volume increases, increases that more than offset the sales volume declines among the already low volume items for which advertising had been discontinued. While this approach worked for Jones, it should be noted that, depending on competition, customer desires, and the like, it may not at times be a sound strategy to promote an entire line.

As part of the analysis, the marketing manager had also conducted interviews among the store managers of some of the leading outlets of Jones Company products, discovering that store managers were not generally aware of the Jones advertising program. As a result of this finding, the marketing manager developed a program which not only kept retailers advised of the company's advertising efforts, but which also provided point-of-purchase merchandising materials to be supplied to the stores for use in conjunction with Jones's consumer advertising programs

The net result of this change was that total sales volume

†All company names in this Aid are fictitious.

of advertised products showed a marked increase in those stores using the point-of-purchase materials, thereby helping Jones's boost sales. As an added bonus, this program helped Jones solidify its relations with the more aggressive retailers.

Acme's Personal Selling Expenses

The Acme Company, a manufacturer and marketer of industrial products, employed ten sales representatives who sold the company's products directly to end users. There were five hundred active accounts on Acme's books. As is often the case for manufacturers, just one hundred of these accounts contributed 75 percent to Acme's sales volume.

Acme kept accurate, detailed records of selling expenses. Total costs for sales force salaries, travel and entertainment, and sales office management were $540,000 per year. Since the sales force made a total of 7200 sales calls per year, Acme's average cost per call was $75, which was in line with the national norm for companies marketing industrial products.

Acme's president was eager to increase the company's sales call productivity. A sales territory analysis revealed that, thanks largely to effective sales management, average calls per day per territory varied only slightly, ranging from a low of 2.7 calls per day to a high of 3.2

Further analysis, however, revealed a wide variation in total annual sales per territory. The territory with the lowest volume produced only $120,000 in sales, whereas the one with the largest volume was generating $520,000. Market potential in the two territories was estimated to be roughly equivalent, leading the president to believe there was a serious problem in the $120,000 territory.

Upon further digging, Acme's president discovered that the representative in the $520,000 territory (whose calls per day average was close to the company's lowest) called regularly on only those accounts with actual or potential sales in excess of $50,000 per year. In fact, of this rep's total sales volume, nearly 80 percent came from those regular calls on high volume accounts. The remaining 20 percent came from orders placed by telephone directly with the factory by smaller volume users, a procedure the representative had initiated and encouraged.

In contrast, the sales rep in the $120,000 territory, who was renowned for his hard work, regularly called on accounts where the sales volume, actual or potential, was less than $10,000 per year. Despite all the hard work, this representative had failed to analyze the potential in the territory on an account by account basis and then to apply effort only where it would produce the greatest results.

Two things happened as a result of the president's analysis. First, with the help of sales management, the productivity of the representative in the low volume territory increased greatly once the calls on low volume/low potential accounts were stopped. Second, and more importantly for the company, the president's analysis served as the basis for the development of a company-wide program in which low volume customers from anywhere in the country could place their orders directly with low cost inside sales personnel at headquarters using incoming WATS telephone lines.

Under the new program the company's sales volume increased by nearly 25 percent without the addition of any new outside sales representatives. In addition although the cost per sales call did not decline, the profitablity of the low volume accounts improved drastically as the result of the elimination of all personal selling costs and the substitution of the telephone order system.

Analyzing Marketing Costs

What brought about Jones's and Acme's successes? Clearly, a willingness to look at programs objectively and a readiness to change. The foundation for these successes was, of course, a good system for identifying and assigning costs which permitted managment to pinpoint wasted effort and ineffective programs.

The problem for many small business owner-managers isn't that they are unable to make equally penetrating analyses of their marketing costs and come up with solutions to inefficient use of marketing dollars. The real problem is that many owner-managers don't have the kind of information they need to begin to make such an analysis. Why not?

Accounting systems. First of all, typical accounting systems are commonly manufacturing production oriented. Such systems are fine for breaking down manufacturing costs, but frequently lump all marketing costs into one or a small handful of "selling expneses" categories that tell you little more than "so much money was spent overall." The categories are just too broad for useful analysis.

Accountants appreciation of marketing costs. Second, many accountants have not been adequately educated by marketers to appriciate the nature of all the various marketing costs. Accountants therefore, as should be ex-

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pected, have concerned themselves chiefly with getting all marketing cost assigned somewhere—sometimes just anywhere—often with little regard to the appropriateness of those assignments or the behavior of the costs.

Lack of objectives. Third, many business owners establish their marketing programs, not on carefully established objectives, but on the basis of tradition (like the Jones Company advertising program), industry practice, or rules of thumb. Many firms merely allocated a long-established percentage of their sales dollars to advertising or attempt to match a competitor's sales force on a one-to-one basis, instead of setting clear, measurable objectives for such marketing endeavors and thinking through the tasks necessary to accomplish them. Unfortunately, in the absence of clearly thought through task analyses and established objectives, its nearly impossible to measure the effectiveness of expenditures budgeted for marketing.

What's needed, then, for you to get the most for your marketing dollar is a marketing oriented cost accounting system, a proper assignment of marketing costs, as well as an understanding of the behavior of these costs, and a program of marketing objectives and results measurements.

A Marketing Oriented Cost Accounting System

To analyze your marketing costs effectively, you need an extensive chart of accounts. Although you should work with your financial and accounting people in the development of a chart specifically suited to your particular business, the following list should give you some idea of what ought to be included in a chart of marketing accounts for a "typical" manufacturing and marketing business:

Salaries and Commissions

Sales Representatives' Salaries
Sales Representatives' Commissions
Marketing Management and Administration
Sales Management
Credit and Collections
Marketing Research
Order Processing

Marketing Communications

Advertising
Sales Promotion
Merchandising
Publicity
Trade Shows and Exhibits
Direct Mail
Samples
Literature
Telephone Expense
Package Design

Shipping

Materials
Freight
Depreciation

Customer Service

Order Entry
Order Processing
Billing
Telephone Expense

Other Marketing Costs

Finished Goods Inventory and Inventory Carrying
Discounts and Markdowns
Marketing Research
Sales Office
Returns
Travel and Entertainment
Credit and Collections
Refunds and Returns
Warranties

A Detailed chart of marketing accounts similar to this one permits you to analyze marketing costs in detail. In addition to studying costs on such a basis, however, it is also desirable to be able to analyze costs on the basis of various marketing or sales units. Thus, the marketing accounting system should also provide for cost analysis on the basis of the following categories:

Market and Market Segment
Channel of Distribution
Product and Product Line
Geographic Region, Distibution Center, or Sales Territory
Account Type and Individual Account.

You may feel that your business isn't ready to break down your marketing expenditures is such detail. These charts should, however, at least give you an idea of the variety of costs a marketing program generates. It's not just selling and advertising expenses.

Nature, Behavior, and Assignment of Marketing Costs

In their nature and behavior, marketing costs do not differ fundamentally from other types of business costs. Like other costs, they are generally either fixed or variable.

Variable costs are those which vary in relation to the amount of an activity or function. The most familiar variable costs, of course, are the manufacturing costs of direct material and direct labor, the more of a given product made, the more material and labor necessary to make it. Some marketing costs are variable, for example, sales commissions, trade and cash discounts, outgoing freight charges—in short, anything that varies in direct proportion to the amount of sales.

Fixed Costs do no vary with the amount of product manufactured or sold or with any other function or activity. In the manufacturing area many overhead costs fall into this category. For example, the costs of lighting and heating the manufacturing plant are fixed.

In the marketing area there are fixed costs, too. District sales managers' salaries and salaries of the sales representatives fall into this category, as do many selling expenses, such as the cost of operating regional sales offices.

In addition to fixed manufacturing and marketing expenses, there are also fixed general expenses. This category typically includes the salaries of the chief operating officer and administrative staff, the cost of operating a company's electronic data processing system, the cost of maintaining the company's headquarters facility, depreciation, insurance, property taxes, and the like.

Contribution Accounting

Contribution accounting allows you to evaluate the contribution to your company's fixed costs made by any give business unit—be it a product or product line, a sales representative, a customer or market segment, a promotional campaign or trade show. Contribution accounting answers the question: "How much money does the unit contribute in excess of the costs (called direct costs) which would not exist if the unit were eliminated or not created?" It tells you how much the unit contributes to carrying overhead—or how much it will contribute to profit if all fixed costs are covered.

To measure the contribution to fixed expenses of a particular product, for example, you would:

1) Calculate the income generated by the product,

2) Subtract the variable expenses of direct labor, direct material, and any variable overhead,

3) Subtract other variable costs (sales commissions, outgoing freight charges, and the like),

4) Subtract fixed program costs for advertising that product (such as advertising costs for advertising that product alone).

Once you have subtracted all the variable costs associated with the product as well as the fixed program costs associated with the product, you have the amount available for contribution to the company's general expenses which that product generates. (To calculate the percentage of the program's contribution divide the contributiun by the income generated.) Here you can see one of the reasons for the detailed chart of accounts and the careful assignment of expenses.

Ericson, Inc.'s Contribution Accounting Analysis

Ericson, Inc. was considering hiring a product manager for an existing product. The product was not selling as well as Ericson's president thought it should. The estimated cost of having this product manager, including salary, benefit programs, and operating expenses (travel, added promotional expenses, etc.), was set at $50,000 per year. Current sales of the product were $150,000 per year, but the marketer believed that a good product manager could double that sales volume.

The existing contribution margin of the product was 40 pecent. That is, after subtracting direct material and direct labor costs was well as all existing fixed expenses associated directly and solely with the product, the product generates forty cents of contribution on every dollar of sales to the company's general expenses. Should the marketer hire a manager for the product?

Using contribution accounting techniques, the marketer estimated the contribution the proposed move would make to company fixed expenses as follows:

Estimated Increased Annual Sales Volume	$150,000
X Existing 40% Contribution Rate	.40
= Contribution @ Existing Rate	$ 60,000
- Increased Expenses of New Product Manager	-50,000
= Contribution to Company's General Expenses	$10,000

In view of this positive contribution to carrying overhead, the president decided to hire the product manager.

A Continuing Program

Marketing programs which appear to be working effectively should be reevaluated periodically. Maybe you can improve them and get an even better return for your marketing dollar by emphasizing the strong points and eliminating weak areas, as did the president of the Acme Company. Furthermore, there is, of course, no guarantee that the most effective marketing program today will remain effective tomorrow. To keep a marketing program strong requires continuous measuring of program results and reevaluation of program effectiveness. You should never stop digging.

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